

## **MAKHADO LOCAL MUNICIPALITY**

### **ASSET MANAGEMENT POLICY, 2020/2021**

(Approved by Council Resolution)

***Vision:*** “A dynamic hub for socio-economic development by 2050”

***Mission:*** “To ensure effective utilization of economic resources to address socio-economic imperatives through mining, agriculture and tourism

#### **Values**

1. Distinctiveness (Uniqueness, Excellence)
2. Progressiveness (Open Minded)
3. Dynamic (Energetic, Lively, Self-Motivated)
4. Culpability (Accountability and Responsibility)
5. Efficacy (Effectiveness and Efficiency)
6. Adeptness (Expertise and Proficiency)

#### **Seven (7) Strategic Objectives**

1. Promote Community Participation and Environmental Welfare
2. Invest In Local Economy
3. Advance Spatial Planning
4. Invest in Human Capital
5. Good Governance and Administrative Excellence
6. Sound Financial Management and Viability
7. Accessible Basic and Infrastructure Services

## **ABBREVIATIONS**

AM	Asset Management
AMS	Asset Management System
CFO	Chief Financial Officer
CoGTA	Cooperative Governance and Traditional Affairs
EPWP	Expanded Public Work Program
GIS	Geographical Information System
GRAP	Generally Recognised Accounting Practice
HR	Human Resource
IAM	Infrastructure Asset Management
IAMP	Infrastructure Asset Management Plan
IAMS	Infrastructure Asset Management Strategy
IAR	Infrastructure Asset Register
IAS	International Accounting Standards
IDP	Integrated Development Plan
IT	Information Technology
KPI	Key Performance Indicators
MFMA	Municipal Finance Management Act
OHSA	Occupational Health and Safety Act
O&M	Operation and Maintenance
R	Rand
SDBIP	Service Delivery and Budget Implementation Plan
SCM	Supply Chain Management
TOR	Terms of Reference
VAT	Value Added Tax
ICT	Information Communication Technology
MLM	Makhado Local Municipality
SLA	Service Level Agreement
PCs	Personal Computers
HOD	Head of Department
SCM	Supply Chain Management

## **1 Purpose of this document**

This document indicates the policy of Makhado Local Municipality for the management of its fixed assets.

## **2 Background**

### **2.1 CONSTITUTIONAL AND Legal framework**

The South African Constitution requires municipalities to strive, within their financial and administrative capacity, to achieve the following objects:

- providing democratic and accountable government for local communities;
- ensuring the provision of services to communities in a sustainable manner;
- promoting social and economic development;
- promoting a safe and healthy environment; and
- encouraging the involvement of communities and community organisations in matters of local government.

The manner in which a municipality manages its fixed assets is central to meeting the above challenges. Accordingly, the Municipal Systems Act (MSA) specifically highlights the duty of municipalities to provide services in a manner that is sustainable, and the Municipal Finance Management Act (MFMA) requires municipalities to utilise and maintain their assets in an effective, efficient, economical and transparent manner. The MFMA specifically places responsibility for the management of municipal assets with the Municipal Manager.

The Occupational Health and Safety Act (OHSA) requires municipalities to provide and maintain a safe and healthy working environment, and in particular, to keep its assets safe.

### **2.2 Accounting standards**

The accounting standards that apply to municipalities are in transition. The MFMA requires municipalities to comply with the Standards of Generally Recognised Accounting Practice (GRAP), in line with international practice. The Accounting Standards Board (ASB) has approved a number of Standards of Generally Recognised Accounting Practice (GRAP). When compiling a Fixed Asset Register in accordance with the accounting standards, the requirements of GRAP 17 cannot be seen in isolation. Various other accounting standards impact on the recognition and measurement of assets within the municipal environment and should be taken into account during the compilation of a GRAP compliant asset register. The following Standards of GRAP significantly impacts on the recognition and measurement of assets within the municipal environment:-

GRAP 1 – Presentation of financial statements

GRAP 3 - Accounting Policies, Changes in Accounting Estimates and Errors

GRAP 5 – Borrowing costs

GRAP 11 - Construction Contracts

GRAP 12 - Inventories

GRAP 13 - Leases and more specifically, deemed finance leases;  
GRAP 16 - Identification of items to be treated as Investment Properties  
GRAP 17 - Property Plant and Equipment  
GRAP 19 – Provisions, contingent liabilities and contingent assets  
GRAP 21- Impairment of Non-cash-generating Assets  
GRAP 26 - Impairment of Cash-generating Assets  
GRAP 27 - Agriculture  
GRAP 31- Intangible assets and more specifically the treatment of items of software.  
GRAP 103 - Heritage Assets  
GRAP 105 – Transfer of Functions Between Entities Under Common Control  
GRAP 106 – Transfer of Functions Between Entities Not Under Common Control

### **2.3     *MANAGEMENT OF infrastructure assets***

Effective management of infrastructure and community facilities is central to the municipality providing an acceptable standard of services to the community. Infrastructure impacts on the quality of the living environment and opportunities to prosper. Not only is there a requirement to be effective, but the manner in which the municipality discharges its responsibilities as a public entity is also important. The municipality must demonstrate good governance and customer care, and the processes adopted must be efficient and sustainable.

Key themes introduced in the latest generation of national legislation relating to municipal infrastructure management include:

- long-term sustainability and risk management;
- service delivery efficiency and improvement;
- performance monitoring and accountability;
- community interaction and transparent processes;
- priority development of minimum basic services for all; and
- provision of financial support from central government in addressing the needs of the poor.

Legislation has also entrenched the Integrated Development Plan (IDP) as the principal strategic planning mechanism for municipalities. However, the IDP cannot be compiled in isolation for the above objectives to be achieved. The IDP needs to be informed by robust, relevant and holistic information relating to the management of the municipality's infrastructure.

There is a need to direct limited resources to address the most critical needs, to achieve a balance between maintaining and renewing existing infrastructure whilst also addressing backlogs in basic services and facing on-going changes in demand. Making effective decisions on service delivery priorities requires a team effort, with inputs provided by officials from a number of departments of the municipality, including infrastructure, community services, financial planning, and corporate services.

Cooperative Government and Traditional Affairs CoGTA has prepared guidelines in line with international practice, that propose that an Infrastructure Asset Management Plan (IAMP) is

prepared for each sector (such as water, roads etc.). These plans are used as inputs into a Comprehensive Infrastructure Plan (CIP) that presents an integrated plan for the municipality covering all infrastructures. This is in line with the practice adopted in national and provincial spheres of government in terms of the Government-wide Immoveable Asset Management Act (GIAMA).

Accordingly, the asset register adopted by a municipality must meet not only financial compliance requirements, but also set a foundation for improved infrastructure asset management practice.

### **3 OBJECTIVES**

The objective of this policy is to:

- implement accrual accounting in terms of prevailing accounting standards; and
- apply asset management practice in a consistent manner and in accordance with legal requirements and recognised good practice.

### **4 Approval and Effective date**

The Municipal Manager is responsible for the submission of this document to Council to consider its adoption. Council shall indicate the effective date for implementation of the policy.

### **5 SCOPE**

This policy applies to all Property, Plant and Equipment including, but not limited to:

- a) Infrastructure assets
- b) Intangible assets
- c) Heritage assets
- d) Investment assets
- e) Biological assets

which is either contributed to the Municipality or purchased and which meets the definition as set out above.

### **6 KEY RESPONSIBILITIES**

The purpose of this section is to prescribe the responsibilities of various functionaries within the municipality regarding assets:

#### *Municipal Manager*

The Municipal Manager is responsible for the management of the assets of the municipality, including the safeguarding and the maintenance of those assets.

The Municipal Manager shall ensure that:

- An Asset Management Committee is established, through which all asset processes and procedures will be implemented.
- The municipality has and maintains a management, accounting and information system that accounts for the assets of the municipality;
- The municipality's assets are valued in accordance with the standards of generally recognised accounting practice (GRAP);
- The municipality has and maintains a system of internal control of assets, including an asset register; and
- The Directors and their teams comply with this policy.

As Accounting Officer of the municipality, the Municipal Manager shall be the principal custodian of all the municipality's fixed assets, and shall be responsible for ensuring that this policy is effectively applied upon adoption by Council. To this end, the Municipal Manager shall be responsible for the preparation, in consultation with the CFO and Directors, of procedures to effectively and efficiently apply this policy.

#### Chief Accounting Officer

The Chief Financial Officer (CFO) is responsible to the Municipal Manager to ensure that the financial investment made in the municipal assets is safeguarded and maintained.

The CFO, as one of the Directors of the municipality, shall also ensure, in exercising his/her financial responsibilities, that:

- Appropriate systems of financial management and internal control are established and carried out diligently;
- The financial and other resources of the municipality are utilized effectively, efficiently, economically and transparently;
- Any unauthorized, irregular or fruitless or wasteful expenditure, and losses resulting from criminal or negligent conduct, are prevented;
- All revenue due to the municipality is collected, for example rental income relating to assets;
- The systems, procedures and registers required to substantiate the financial values of the municipalities' assets are maintained to standards sufficient to satisfy the requirements of the Auditor-General;
- Financial processes are established and maintained to ensure the municipality's financial resources are optimally utilized through appropriate asset plans, budgeting, purchasing, maintenance and disposal decisions;
- The Municipal Manager is appropriately advised on the exercise of powers and duties pertaining to the financial administration of assets;
- The Directors and senior management teams are appropriately advised on the exercise of their powers and duties pertaining to the financial administration of assets;
- This policy and support procedures are established, maintained and effectively communicated.

The CFO may delegate or otherwise assign responsibility for performing these functions but will remain accountable for ensuring these activities are performed. The CFO shall be the fixed asset registrar of the municipality, and shall ensure that a complete, accurate and up-to-date computerised fixed asset register is maintained. No amendments, deletions or additions to the fixed asset register shall be made other than by the CFO or by an official acting under the written instruction of the CFO.

### Chief Financial Officer and Asset Manager

The Asset Manager and the Chief Financial Officer shall ensure that:

- The Asset Management Policy is reviewed on an annual basis to ensure alignment with legislative and prescriptive guidelines;
- The process and procedure guidelines are reviewed on an annual basis to address any shortcomings and incorporate guidance received from the internal and external auditors;
- The Policy and Procedure Guidelines are adhered to;
- A detailed action plan is developed for the annual review/verification of all assets; and that this action plan is effectively followed.

### The Human Resources Management Department

The Human Resources Management Department shall ensure that no monies are paid out to staff on termination of their service prior to receiving the relevant asset resignation form signed off by the relevant directorate

### Director

Directors (the managers directly accountable to the Municipal Manager) shall ensure that:

- Appropriate systems of physical management and control are established and carried out for all fixed assets;
- The municipal resources assigned to them are utilized effectively, efficiently, economically and transparently;
- Procedures are adopted and implemented in conformity with this policy to produce reliable data to be captured into the municipal asset register;
- Any unauthorised, irregular or fruitless or wasteful utilisation, and losses resulting from criminal or negligent conduct, are prevented;
- The asset management system, processes and controls can provide an accurate, reliable and up to date account of assets under their control;
- They are able to manage and justify that the asset plans, budgets, purchasing, maintenance and disposal decisions optimally achieve the municipality's strategic objectives; and
- Manage the asset life-cycle transactions to ensure that they comply with the plans, legislative and municipal requirements.
- ensure that employees in their departments adhere to the approved Asset Management Policy
- Ensure that all assets are procured in terms of the SCM Policy
- Ensure that employees with delegated authority have been nominated to implement and maintain physical control over assets in their departments. Although authority has been delegated, responsibility remains with the respective Directors of the departments and overall accountability with the Executive Directors of relevant directorates

The Directors may delegate or otherwise assign responsibility for performing these functions but they shall remain accountable for ensuring these activities are performed.

## **7 POLICY AMENDMENT**

Changes to this document shall only be applicable if approved by Council. Any proposals in this regard shall be motivated by the Municipal Manager in consultation with the CFO and respective Directors. These recommendations shall be considered for adoption by Council.

## **8 RELATIONSHIP WITH OTHER POLICIES**

This policy, once effective, will replace the pre-existing Asset Management Policy.

This policy needs to be read in conjunction with other relevant policies of the municipality, including the following adopted documents:

- Delegations Register  
Identifying the processes surrounding the establishment of delegated authority.
- SCM policy  
Regulating all processes and procedures relating to acquisitions and disposals.
- Budget policy  
The processes to be followed during the budget process as well as pre-determined prioritisation methodology,
- Accounting Policy  
Governed by the Accounting standards, the accounting policy determines the basis recognition, measurement and recording of all transactions.
- Risk Management Policy  
The policy promotes effective and efficient asset utilisation.

## **9 REFERENCES**

The following references were observed in compiling this document:

- The Constitution of the Republic of South Africa, 1996
- Public Finance and Management Act, 1999
- Asset Management Framework, National Treasury, 2004
- Guidelines for Infrastructure Asset Management in Local Government, CoGTA, 2006
- Municipal Finance Management Act, 2003
- Disaster Management Act, 2002
- Municipal Systems Act, 2000
- Municipal Structures Act, 1998
- Accounting Standards Board
- MFMA Circulars
- Local Government Capital Asset Management Guidelines, National Treasury, 2008
- Government Gazettes (30013 & 31021)
- Standards of GRAP
- General Principles of Law of Contract, Commercial Law and Common Law
- Promotion of Access to Information Act
- Promotion of Administrative Justice Act



- Protection of Personal Information Act
- Electronic Communications Act
- All other applicable primary municipal legislation
- Cobit Vendor Management Guidelines, ISACA
- Contractual obligations in terms of 3rd party SLAs

## **10 POLICY FOR FIXED ASSET ACCOUNTING**

### **10.1 Fixed Asset Recognition**

#### **(a) Definitions and rules**

##### Asset

An asset is defined as a resource controlled by an entity as a result of past events and from which future economic benefits or service potential associated with the item will flow to the entity.

##### Fixed Asset

A fixed asset is an asset with an expected useful life greater than 12 months.

##### Useful Life

Useful life is defined as the period over which an asset is expected to be available for use by an entity, or the number of production or similar units expected to be obtained from the asset by an entity.

##### Control

An item is not recognised as an asset unless the entity has the capacity to control the service potential or future economic benefit of the asset, is able to deny or regulate access of others to that benefit, and has the ability to secure the future economic benefit of that asset

##### Past transactions or events

Assets are only recognised from the point when some event or transaction transferred control to an entity.

##### Probability of the flow of benefits or service potential

The degree of certainty that any economic benefits or service potential associated with an item will flow to the municipality is based on the judgement. The Municipal Manager shall exercise such judgement on behalf of the municipality, in consultation with the CFO and respective Director.

##### Economic benefits

Economic benefits are derived from assets that generate net cash inflows.

##### Service Potential

Assets have service potential if they have the capacity, singularly or in combination with other assets, to contribute directly or indirectly to the achievement of an objective of the municipality, such as the provision of services.

### Tangible assets

Tangible fixed assets can be either movable or immovable. Moveable assets are assets that can be moved (such as machinery, equipment, vehicles and furniture). Immoveable assets are fixed structures such as buildings and roads. Plant that is built-in to the fixed structures and is an essential part of the functional performance of the primary asset is considered an immovable asset (though it may be temporarily removed for repair).

### Intangible assets

Intangible assets are defined as identifiable non-monetary assets without physical substance. Examples are licenses/rights, (such as water licenses), servitudes, and software. The assets must either be separable (able to be sold, transferred, or rented) or arise from contractual rights.

### Leased assets

A lease is an agreement whereby the lessor conveys to the lessee, in return for a payment or series of payments, the right to use an asset for an agreed period of time. Leases are categorised into finance and operating leases. A finance lease is a lease that transfers substantially all the risks and rewards incident to ownership of an asset, even though the title may or may not eventually be transferred (substance over form). Where the risks and rewards of ownership of an asset are substantially transferred, the asset in respect of that finance lease is recognised as a fixed asset. Where there is no substantial transfer of risks and rewards of ownership, the lease is considered an operating lease and payments are expensed in the income statement on a systematic basis. (straight line basis over the lease term)

### Asset custodian

The department that controls an asset, as well as the individual that is responsible for the operations associated with such asset in the department, is identified by the respective Director and will be responsible for the asset.

### Reliable measurement

Items are recognised that possess a cost or fair value that can be reliably measured in terms of this policy.

## **(b) Policy**

The municipality shall recognise all fixed assets existing at the time of adoption of this policy, and the development of new, upgraded and renewed fixed assets on an ongoing basis. Such assets shall be capitalised in compliance with prevailing accounting standards.

## **(c) Responsibilities**

- The CFO, in consultation with the Municipal Manager and Directors, shall determine effective procedures for the recognition of existing and new fixed assets.
- Every Director shall ensure that all fixed assets under their control are correctly recognised as fixed assets.
- Every Director shall keep an inventory of items that have a useful life of greater than one year.

- The Municipal Manager shall make recommendations to the Council as to the threshold monetary value for fixed assets for which accelerated depreciation shall apply.
- The CFO shall keep a lease register with the following minimum information: name of the lessor, description of the asset, fair value of the asset at inception of the lease, lease commencement date, lease termination date, economic useful life of the asset, lease payments, and any restrictions in the lease agreement.

## **10.2 Classification of Fixed Assets**

### **(a) Definitions and rules**

#### Fixed asset categories

Fixed assets are grouped for accounting purposes, as follows:

1. Property, plant and equipment (which is broken down into groups of assets of a similar nature or function in the municipality's operations, that is shown as a single item for the purposes of disclosure in the financial statements);
2. Intangible assets;
3. Investment property.

#### Property, plant and equipment (PPE)

PPE are defined as tangible items that are held for use in the production or supply of goods or services, or for administration purposes and are expected to be used for more than one reporting period.

#### Reliability of measurement

In many cases the cost or value of an asset must be estimated; the use of a reasonable estimate is essential. Where a reasonable estimate cannot be made the asset should not be recognised.

#### Probability of the flow of benefits or service potential

The degree of certainty that any economic benefits or service potential associated with an item will flow to the municipality is based on the judgement. The Municipal Manager shall exercise such judgement on behalf of the municipality, in consultation with the CFO and respective Director. In the event that it is not probable that there will be an inflow, the asset should not be recognised.

#### Spares

Major spare parts are recognised as an item of PPE immediately when they are available for use (ex. in the stores). Dedicated spares (ones that can only be used for specific assets) are also recognised as PPE and depreciated on installation date.

#### Items used irregularly

Tangible items that are used in the production or supply of goods or services on an irregular basis (such as standby equipment) are recognised as items of PPE.

### Class of PPE

A class of PPE is defined as a group of assets of a similar nature or function in the municipality's operations that is shown as a single item for the purpose of disclosure in the financial statements.

### PPE Asset hierarchy

An asset hierarchy is adopted for PPE which enables separate accounting of parts (or components) of an asset that are considered significant to the municipality from a financial point of view, and for other reasons determined by the municipality, including risk management (in other words, taking into account the criticality/materiality of components) and alignment with the strategy adopted by the municipality in asset renewal (for example the extent of replacement or rehabilitation at the end of life). In addition, the municipality may aggregate relatively insignificant items to be considered as one asset. The structure of the hierarchy recognises the functional relationship of assets and components.

### PPE: Infrastructure

Infrastructure assets are immovable assets which are part of a network of similar assets and are specialised in nature.

### PPE: Community assets

Community assets are immovable assets contributing to the general well-being of the community, such as community halls, library and library books

### PPE: Heritage assets

Heritage assets are assets of cultural, historic or environmental significance, such as monuments, nature reserves, and works of art. The municipality is not required to recognise assets as heritage assets where they would otherwise meet the criteria for PPE (for example a historic building being used as office accommodation).

### PPE: Other Assets

Other assets are ordinary operational assets such as land, administration buildings, vehicles, computer equipment as well as furniture and fittings.

### Intangible assets

Intangible assets are defined as identifiable non-monetary assets without physical substance. Examples are licenses/rights, (such as water licenses), servitudes, and software. The assets must either be separable (able to be sold, transferred, or rented) or arise from contractual rights.

.Where an intangible asset is acquired at no or nominal cost (for example in the case of donated or developer-created), or reliable costs data is not available, its cost is deemed to be its fair value at the date of acquisition.

#### **licence fees can be expensed when the following conditions are met:**

- the licence fee is for a period of one year or less; and
- the one year or less period falls exactly within the financial reporting period of the entity.

### Investment property

Investment property is defined as property (land and/or a building) held (by the owner or the lessee under a finance lease) to earn rentals or for capital appreciation, or both (rather than for use in the production or supply of goods or services or for administration purposes or sale in the ordinary course of operations). Examples of investment property are office parks, shopping centres or housing financed and managed by a municipality (or jointly with other

parties). There is no asset hierarchy for investment property; each functional item will be individually recorded. Land held for a currently undetermined use is recognised as investment property until such time as the use of the land has been determined.

In the case of a fixed asset not appearing in the adopted classification structure, a classification that is most closely comparable to the asset in question is used.

**(b) Policy**

The following categories and sub-categories shall be used at the highest level of the fixed asset classification structure:

Accounting Group	Asset Category	Asset Sub-category
Property, plant and equipment	Infrastructure	Electricity network
		Road and storm-water network
		Solid Waste Disposal
	Community Assets	Community facilities
		Cemeteries
		Libraries
		Library Books
		Sport And Recreational Facility
	Heritage assets	Monuments
		Historic buildings
		Works of art
		Conservation areas
	Other assets	Operational buildings (Dwellings)
		Transport Assets
		Machinery and other Equipment
		Furniture And Office Equipment
		Computer equipment
	Land	Developed Land
		Undeveloped Land
Intangible Assets	Servitudes	All
	Statutory licenses	All
	Software	All
Investment property	Investment property	Investment Developed Land

		Investment Undeveloped Land
		Investments Non Residential Structures
		Investment Dwellings

PPE shall be disclosed in the financial statements at the asset category and sub-category level on the Notes and Appendixes.

Asset hierarchies shall be adopted for each of the PPE sub-categories, separately identifying items of PPE that are significant from a financial or risk perspective, and, where applicable, grouping items that are relatively insignificant.

### **Expensed Assets**

Below is the list examples assets that will be expensed upon purchase and will not be barcoded or recorded on the assets register. These assets will be maintained on a separate register.

- Plastic Chairs
- Calculators
- Sound System Microphones
- First Aid Kit
- Non Heavy duty Staplers
- Plastic tool boxes.

### **Assets under construction**

If property, plant and equipment are constructed over more than one financial period it shall be recognized as Work-In-Progress or assets under construction until available for use and depreciation will be calculated when the asset is completed and ready for use.

Prior recognition of the constructed projects on the register, unbundling will conducted per assets categories on this policy **Annexure A**. Unbundling will only be conducted when the project has been certified completed and a certificate issued.

Complementary assets that do not have a significant value to the project will be allocated to the main component that they are related to. The unbundling process will be conducted by qualified engineers and the Municipal technical /assets management team.

#### **(c) Library books**

The books in a library book collection will be documented and recorded in the library computer systems. The library computer system will be well maintained and can be relied upon to provide the basis for the carrying value of the library book collection.

The value of the library book collection could be determined by applying standard rate to the quantities of different library books of different ages where exact cost is not available

Where library books of a particular value or importance are kept in the library these should be separately recorded and valued. An identification tag should be attached to these books to indicate this status

**(d) Responsibilities**

- The CFO shall ensure that the classification of fixed assets adopted by the municipality complies with the statutory requirements.
- The CFO shall consult with the Directors responsible for fixed assets to determine an effective and appropriate asset hierarchy for each asset class of PPE.
- Every Director shall ensure that all fixed assets under their control are classified correctly.

### **10.3 Identification of Fixed Assets**

**(a) Definitions and rules**

*Asset coding*

An asset coding system is the means by which the municipality is able to uniquely identify each fixed asset (at the lowest level in the adopted asset hierarchy) in order to ensure that it can be accounted for on an individual basis.

**(b) Policy**

A coding system shall be adopted and applied that will enable each fixed asset (at the lowest level in the adopted asset hierarchy) to be uniquely and readily identified. Each moveable fixed asset shall be marked with its respective code.

Infrastructure assets will be identified using the location ( GPS ,street names) of the assets and the project ids. Unique code will be created on the fixed assets register for the sole purpose of identification but however this will not be engraved/coded on the Infrastructure assets.

Assets purchased will be recorded and handed over to the custodian using the Asset Acquisition Form per **Annexure C**. This will apply strictly to assets purchased on a cash/accruals basis.

**(c) Responsibilities**

- The Municipal Manager shall develop and implement a fixed asset coding system in consultation with the CFO and other Directors to meet the policy objective.
- Directors shall ensure that all the fixed assets under their control are correctly coded.
- Directors shall ensure that the respective asset codes are fixed to all moveable assets under their control.

## **10.4 Fixed Asset Register**

### **(a) Definitions and rules**

#### Fixed asset register

A fixed asset register is a database of information relating to each fixed asset (at the lowest level in the fixed asset hierarchy). The fixed asset register is structured in line with the adopted classification structure. The scope of data in the register is sufficient to facilitate the application of the respective accounting standards for each of the asset classes, and the strategic and operational asset management needs of the municipality.

#### Updating data in the asset register

The fixed asset register is updated by the Asset Officer only when authorised to do so by the CFO. The Asset Officer is precluded from being a custodian of any assets.

#### Format of fixed asset register

The fixed asset register shall be maintained in the format determined by the Chief Financial Officer, which format shall comply with the requirements of generally recognised accounting practice (GRAP) and any other accounting requirements which may be prescribed

The fixed asset register shall reflect the following information:

- a brief but meaningful description of each asset
- the date on which the asset was acquired or brought into use
- the location of the asset in the form of GPS ,Street Names room numbers
- where applicable, the bar code number
- accumulated depreciation to date
- the depreciation charge for the current financial year
- the carrying value of the asset
- the method and rate of depreciation
- the title deed number, in the case of fixed property
- the stand number, in the case of fixed property
- the original cost, the revalued amount or the fair value if no costs are available
- disposal date
- impairment losses incurred during the financial year (and the reversal of such losses, where applicable)

### **(b) Policy**

A fixed asset register shall be established to provide the data required to apply the applicable accounting standards, as well as other data considered by the municipality to be necessary to support strategic asset management planning and operational management needs. The fixed asset register shall be updated and reconciled to the general ledger on a monthly basis.

### **(c) Responsibilities**

- The CFO shall define the format of the fixed asset register in consultation with the Municipal Manager and the Directors, and shall ensure that the format complies with the prevailing accounting standards and disclosure requirements.



- Directors shall provide the CFO with the data required to establish and update the asset register in a timely fashion.
- The CFO shall establish procedures to control the completeness and integrity of the asset register data.
- The CFO shall ensure proper application of the control procedures.

## **10.5 MEASUREMENT AT RECOGNITION**

### **(a) Definitions and rules**

#### Measurement at recognition of PPE

An item of PPE that qualifies for recognition is measured at cost. Where an asset is acquired at no or nominal cost (for example in the case of donated or developer-created assets), its cost is deemed to be its fair value at the date of acquisition. In cases where it is impracticable to establish the cost of an item of PPE, such as recognising fixed assets for which there are no records, or records cannot be linked to specific assets, its cost is deemed to be its fair value.

#### Fair value

Fair value is defined as the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Market values obtained from a qualified valuer can be used where there is an active and liquid market for assets (for example land, non-specialised buildings such as offices, motor vehicles, and some types of plant and equipment). In the case of specialised buildings (such as community buildings) and infrastructure where there is no such active and liquid market, a depreciated replacement cost (DRC) approach may be used. Assessments of fair value are to be made by professionals with qualifications and appropriate knowledge and experience in valuation of the respective assets.

#### Cost of an item of PPE

The capitalisation value comprises (i) the purchase price and (ii) any directly attributable costs necessary to bring the asset to its location and condition necessary for it to be operating in the manner intended by the municipality, plus (iii) an initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located. VAT is excluded (unless the municipality is not allowed to claim input VAT paid on purchase of such assets - in such an instance, the municipality should capitalise the cost of the asset together with VAT).

#### Directly attributable costs

Directly attributable costs are defined as:

- Employee costs arising directly from the construction or acquisition of the item of PPE
- Costs of site preparation;
- Initial delivery and handling costs;
- Installation and assembly costs;
- Commissioning; and
- Professional fees (for example associated with design fees, supervision, and environmental impact assessments).

#### Exchanged PPE assets

In cases where assets are exchanged, the cost is deemed to be the fair value of the acquired asset and the disposed asset is de-recognised.

#### PPE finance leases

Once a lease is deemed to be a finance lease, the asset is capitalised at the lower of the fair value of the asset or the present value of future lease payments, using the relevant discounting rate at the date of signing of the lease agreement.

#### Depreciated replacement cost

The depreciated replacement cost (DRC) approach requires information on the expected useful life (EUL), residual value (RV), current replacement cost (CRC), and remaining useful life (RUL) of each of the asset components. The CRC is the product of a unit rate and the extent of the component and represents the cost of replacing the asset, and in cases where the existing asset is obsolete, the replacement with a modern equivalent. The depreciable portion of an asset is determined by subtracting the residual value from the CRC. The depreciated replacement cost (DRC) is established by proportionately reducing the depreciable portion based on the fraction of the remaining useful life over the expected useful life.

Accordingly, the following formula is used:

$$\text{DRC} = ((\text{CRC} - \text{RV}) \times \text{RUL}/\text{EUL}) + \text{RV}$$

Replacement costs are “green field”, unless there is evidence of definite cost variance due to “brown-field” modifications. Capital unit costs vary from site to site and provision is made for site specific influencing factors (e.g. topography). Capital unit costs are also influenced by macro-economic driving forces such as “supply-and-demand”, economy of scale, financial markets and availability of contractors, and the impact of these factors are reflected in the capital unit rates where applicable. Adjustments of rates for escalation to the valuation date are applied.

#### Self-constructed assets

Self-constructed assets relate to all assets constructed by the municipality itself or another party on instructions from the municipality. All assets that can be classified as fixed assets and that are constructed by the municipality should be recorded in the asset register and depreciated over its estimated useful life for that category of asset. Proper records are kept such that all costs associated with the construction of these assets are completely and accurately accounted for as capital under construction, and upon completion of the asset, all costs (both direct and indirect) associated with the construction of the asset are summed and capitalised as an asset.

#### Borrowing costs

Borrowing costs are interest and other costs incurred by the municipality from borrowed funds. The items that are classified as borrowing costs include interest on bank overdrafts and short-term and long-term borrowings, amortisation of premiums or discounts associated with such borrowings, amortisation of ancillary costs incurred in connection with the arrangement of borrowings; finance charges in respect of finance leases and foreign exchange differences arising from foreign currency borrowings when these are regarded as

an adjustment to interest costs. Borrowing costs shall be capitalised if related to construction of a qualifying asset to get ready for its intended use or resale and external funding is sourced to fund the project.

#### Investment property

Where available, initial recognition will take place on the cost model. Should relevant cost data not be available, a fair value determination will be made by appointing a valuer. Subsequent measurement and disclosure will be subject to an annual fair value assessment.

If the council of the municipality constructs or develops a property for future use as an investment property, such property shall in every respect be accounted for as PPE until it is ready for its intended use – where after it shall be reclassified as an investment asset.

#### Intangible assets

An item of intangible asset acquired by the municipality is recognised at cost. Where an intangible asset is acquired at no or nominal cost (for example in the case of donated or developer-created), or reliable costs data is not available, its cost is deemed to be its fair value at the date of acquisition.

### **(b) Policy**

Fixed assets that qualify for recognition shall be capitalised at cost.

In cases where complete cost data is not available or cannot be reliably linked to specific assets, the fair value of fixed assets shall be adopted on the following basis:

- PPE infrastructure, community assets, other assets, staff housing (moveable and immoveable);: depreciated replacement;
- PPE land: values from the valuation roll ( or in the event that such is not available, depreciated replacement cost);
- Heritage assets (that do not qualify as any other PPE): no value shall be indicated.
- Investment property: values from the valuation roll ; and
- Intangible assets: depreciated replacement cost.

### **(c) Responsibilities**

- The CFO, in consultation with the Municipal Manager and Directors, shall determine effective procedures for the capitalisation of fixed assets on recognition.
- Every Director shall ensure that all fixed assets under their control are correctly capitalised.

## **10.6 MEASUREMENT AFTER RECOGNITION**

### **(a) Definitions and rules**

#### Options

Accounting standards allow measurement after recognition on either a cost or revaluation model. Different models can be applied, providing the treatment is consistent per asset class.

#### Cost model

After recognition, an asset is carried at its cost less any accumulated depreciation and any accumulated impairment losses.

#### Revaluation model

After recognition, an asset (whose value can be measured reliably) is carried at a revalued amount, being its fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations are made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the reporting date. When revaluations are conducted, the entire class of assets should be revalued. Revaluation is to be executed by persons with suitable professional qualifications and experience. Any change to an asset's carrying amount as a result of revaluation, is credited (or deducted from any surplus from previous revaluations) in the Revaluation Reserve.

The revaluation surplus is transferred to accumulated surpluses/deficits on de-recognition of an asset. An amount equal to the difference between the new (enhanced) depreciation expense and the depreciation expenses determined in respect of such fixed asset before the revaluation in question is transferred from the revaluation reserve to the municipality's appropriation account. An adjustment of the aggregate transfer is to be made at the end of each financial year.

#### Statutory inspections

The cost of a regular major statutory inspection that is required for the municipality to continue to operate an asset is recognised at the time the cost is incurred, and any previous statutory inspection cost is de-recognised.

#### Expenses to be capitalised

Expenses incurred in the enhancement of a fixed asset (in the form of improved or increased services or benefits flowing from the use of such asset), or in the material extension of the useful operating life of a fixed asset are capitalised. Such expenses are recognised once the municipality has beneficial use of the asset (be it new, upgraded, and/or renewed) – prior to this, the expenses are recorded as work-in-progress. Expenses incurred in the maintenance or repair (reinstatement) of a fixed asset that ensures that the useful operating life of the asset is attained, shall be considered as operating expenses and are not capitalised, irrespective of the quantum of the expenses concerned.

#### Spares

The location of capital spares shall be amended once they are placed in service, and re-classified to the applicable PPE asset sub-category.

Upon purchase, capital spares will be recorded on the Fixed Asset register but will not be depreciated until the day when they are placed in service.

### **(b) Policy**

Measurement after recognition shall be on the following basis:

- Immoveable PPE land: Cost model Moveable PPE: cost model;
- Heritage assets: cost model;
- PPE Land and Investment property: values established on the cost model; and
- Intangible assets: cost model.

Changes in asset value as a result of revaluation shall be reflected in a Revaluation Reserve.

**(c) Responsibilities**

- The CFO, in consultation with the Municipal Manager and Directors, shall determine effective procedures for the on-going capitalisation of fixed assets after recognition.
- Every Director shall ensure that all capital expenses associated with fixed assets under their control are correctly capitalised.
- Every Director shall ensure that revaluations are conducted where applicable to fixed assets under their control.

## **10.7 Depreciation**

**(a) Definition and rules**

Depreciation

Depreciation is the systematic allocation of the depreciable amount of an asset over its remaining useful life. (The amortisation of intangible assets is identical).

Land, servitudes and heritage assets are considered to have unlimited life and are not depreciated.

Depreciable amount

The depreciable amount is the cost of an asset, or other amount substituted for cost, less its residual value.

Residual value

The residual value is the estimated amount that the municipality would currently obtain from disposal of the asset after deducting the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life.

The residual values of assets are indicated in **Annexure A** in the form of a percentage. In the case of assets measured after recognition on the cost model, the percentage is of the initial cost of acquisition. In the case of assets measured after recognition on the revaluation model, the percentage is of the modern equivalent replacement value.

Depreciation method

Depreciation of PPE is applied at the component level. A range of depreciation methods exist and can be selected to model the consumption of service potential or economic benefit (for example the straight line method, diminishing amount method, fixed percentage on reducing balance method, sum of the year digits method, production unit method).

Remaining useful life

The remaining useful life of a depreciable fixed asset is the time remaining until an asset ceases to provide the required standard of performance or economic usefulness.

The remaining useful life of all depreciable fixed assets at initial recognition is the same as the expected useful life indicated in **Annexure A**. These figures have been established using

available information on industry norms, experience of local influencing factors (such as climate, geotechnical conditions, and operating conditions), the life-cycle strategy of the municipality, potential technical obsolescence, and any legal limits on the use of the asset.

#### Depreciation charge

Depreciation starts once an asset is recognised and available for use and ceases when it is de-recognised or classified as non-current assets held for sale. Therefore, depreciation does not cease when the asset becomes idle or is retired from active use and held for disposal unless the asset is fully depreciated. However, under usage methods of depreciation the depreciation charge can be zero while there is no production. Depreciation is initially calculated when the asset is available for use, i.e. when it is in the location and condition necessary for it to be capable of operating in the manner intended by the municipality.

#### Carrying amount

The carrying amount is the amount at which an asset is recognised after deducting any accumulated depreciation and accumulated impairment losses.

#### Capital spares

The depreciation of capital spares commences immediately when they are available in the stores. The depreciation continues once they are placed in service, or subsequently removed from service.

### **(b) Policy**

All fixed assets, except land, heritage assets and servitudes, shall be depreciated over their remaining useful lives. In all cases, the straight line method of depreciation shall be used. The depreciation charge for each period shall be recognised as an expense. The depreciation method, residual value and remaining useful life should be reviewed at each reporting date.

The residual value shall be assessed based on the asset condition, municipal usage factors, industry norms and where applicable disposal proceeds of the previous years.

#### Responsibilities

- Every Director shall ensure that a budgetary provision is made for the depreciation of the fixed assets under their control in the ensuing financial year, in consultation with the CFO.
- The municipality shall review the expected useful life stated in Annexure A of assets that are under their control and motivate to the Municipal Manager and CFO any adjustments if, in the judgement of the Director, such are not considered appropriate. This should not happen continuously because the accounting principle of consistency would be violated.
- The CFO shall ensure that depreciation charges are debited on a monthly basis and that the fixed asset register is reconciled with the general ledger.

## **10.8 ANNUAL ASSESSMENTS**

### **(a) Definition**

#### Impairment

Impairment is defined as the loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation. Annual impairment will be done in April of each financial year to ascertain if there are any assets that need to be impaired.

#### Indications of impairment

The municipality must each year test assets for impairment losses if, and only if, there has been an indication of any of the following:

- external sources of information:
  - decline or cessation in demand;
  - changes in the technological, legal or government policy environment; or
- internal sources of information:
  - evidence of physical damage;
  - evidence of obsolescence;
  - construction is halted before it is usable or complete; or
  - evidence that service performance is significantly worse than expected; or
- other indications, such as loss of market value.

The municipality must however test all intangible assets that have indefinite useful life and those not yet available for use, annually for impairment irrespective of whether there is an indication of impairment.

The municipality must only record impairments that are significant and have an enduring adverse effect (material and long-term impact). The events and circumstances in each instance must be recorded. Where there are indications of impairment, the municipality must also consider adjustment of the remaining useful life, residual value, and method of depreciation.

#### Impairment loss

An impairment loss of a non-cash-generating unit or asset is the amount by which the carrying amount of an asset exceeds its recoverable service amount. The recoverable service amount is the higher of the fair value less costs to sell and its value in use.

An impairment loss of a cash-generating unit (asset or smallest group of assets that generate cash inflows) is the amount by which the carrying amount of an asset exceeds its recoverable amount. The recoverable amount is the higher of the net selling price and its value in use.

#### Non-cash-generating units

Non-cash-generating units are those assets (or group of assets) that are not held with the primary objective of generating a commercial return. This would typically apply to assets providing goods or services for community or social benefit, such as infrastructure and community facilities. Typically there will not be an active market for such assets, and in such cases the municipality may use the asset's value in use as its recoverable service amount.



The value in use of a non-cash generating unit is defined as the present value of the asset's remaining service potential. This can be determined using any of the following approaches:

- the Depreciated Replacement Cost (DRC) approach (and where the asset has enduring and material over-capacity, for example in cases where there has been a decline in demand, the Optimised Depreciated Replacement Cost (ODRC) approach may be used);
- the restoration cost approach (the Depreciated Replacement Cost less cost of restoration) – usually used in cases where there has been physical damage; or
- the service units approach (which could be used for example where a production units model of depreciation is used).

Where the present value of an asset's remaining service potential (determined as indicated above) exceeds the carrying value, the asset is not impaired – this will normally be the case unless there has been a significant and enduring event as indicated above.

#### Cash-generating unit

Cash-generating units are those whose assets are held with the primary objective of generating a commercial return (in the municipal arena this would typically apply to investment property). However, when the municipality adopts the fair value model for investment property, impairment does not apply.

When the cost model is adopted, fair value is determined in accordance with the rules indicated for measurement after recognition. Costs to sell are the costs directly attributable to the disposal of the asset (for example agents fees, legal costs), excluding finance costs and income tax expenses. The value in use is determined by estimating the future cash inflows and outflows from the continuing use of the asset and at the end of its useful life, including factors to reflect risk in the respective cash-flows, and the time value of money.

#### Recognition of impairment

The impairment loss is recognised as an expense when incurred (unless the asset is carried at a revalued amount, in which case the impairment is carried as a decrease in the Revaluation Reserve, to the extent that such reserve exists). After the recognition of an impairment loss, the depreciation charge for the asset is adjusted in future periods to allocate the asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Once an asset has been impaired to such an extent that no future economic benefit is likely to flow from the asset, it is derecognised and the carrying amount of the asset at the time of de-recognition, less any economic benefit from the disposal of the asset, is debited to the statement of financial performance as a "Loss on Disposal of Asset".

In the event of compensation received for damages to an item of PPE and the item is not to be repaired to its original state, the compensation is considered as the asset's ability to generate income and is disclosed under Sundry Revenue; and the asset is impaired. Should repairs be performed, the compensation is offset against the repair cost.

#### Reversing an impairment loss

The municipality must assess each year from the sources of information indicated above whether there is any indication that an impairment loss recognised in previous years may no longer exist or may have decreased. In such cases, the carrying amount is increased to its



recoverable amount (providing that it does not exceed the carrying amount that would have been determined had no impairment loss been recognised in prior periods). Any reversal of an impairment loss is recognised as a credit in the surplus/ (deficit), unless the asset is carried at a revalued amount and the impairment loss was previously treated as a revaluation decrease in the Revaluation Reserve, in which case the reversal of the impairment loss is carried to the Revaluation Reserve as a revaluation increase, to the extent that such reserve exists.

### **(b) Policy**

Impairment of fixed assets shall be recognised as an expense in the Statement of Financial Performance when it occurs. Ad-hoc impairment shall be identified as part of normal operational management as well as scheduled annual inspections of the assets.

#### *Review of Remaining Useful Life*

The remaining useful lives of depreciable PPE are reviewed every year at the reporting date. Changes may be required as a result of new, updated or more reliable information being available. Depreciation charges in the current and future reporting periods are adjusted accordingly, and are accounted for as a change in an accounting estimate.

Reviews of remaining useful life on assets will be assessed using the following criteria's:

- Assets Condition
- Usage pertain in the entity
- Asset categories
- If asset in use currently
- Expiration date of asset.
- Average policy life range.
- Legal limits to the use of the asset

The **Annexure B** will be a guideline that shall be applied when conducting the reviews of asset life spans

### **(c) Responsibilities**

- The CFO shall indicate a fixed annual date for the review of remaining useful life of assets under the control of the respective Directors.
- The Directors shall review the remaining useful life of all assets under their control at the annual review date, and from time to time as a result of any events that come to their attention that may have a material effect on some or all such assets. The Director shall motivate to the CFO proposed changes to the remaining useful of such assets.
- The Director should evaluate all the assets for impairment, taking into consideration any discussions with the Senior Accountants and Operating Managers.
- The Asset register administrator should update the fixed asset register with the information received, relating to the financial management system where the impairment journals have been processed

- The CFO shall report changes made to the carrying values of these assets in the asset register to the Municipal Manager and Council.

## **10.9 DE-RECOGNITION**

### **(a) Definition and rules**

#### De-recognition

A fixed asset is derecognised on disposal or when no future economic benefits or service potential are expected from its use or disposal.

The carrying amount of an asset and the net disposal proceeds (or cost of de-commissioning and/or disposal of an asset) shall be included in the surplus or deficit when the item is derecognised.

Disposal of assets should be approved by Council and where applicable at market-related value (or auction/tender in the case of moveable assets). Section 14 of the MFMA prohibits the disposal of assets needed to provide the minimum level of basic municipal services.

A fixed asset will remain in the fixed assets register for as long as it is in physical existence or is yet to be written off.

Assets can be derecognised in the following methods;

- Transfer
- Auctions;
- Recycle;
- Donations;
- Cannibalizing; and
- Scrapping/ Write off.

Profits or Losses arising from the retirement or disposal of an item of property, plant and equipment shall be determined as the difference between the actual or estimated net disposal proceeds and the carrying amount of the asset, and shall be recognized as revenue or expense in the statement of financial performance.

### **(b) Policy**

The only reasons for writing off fixed assets, other than the alienation of such fixed assets, shall be the loss, theft, destruction, material impairment, or decommissioning of the fixed asset in question.

Verification will be conducted and a report provided motivating the reasons for the write off. Assets that cannot be found will be written off after all reasonable investigations have been conducted to establish the location of the assets.

A de-recognition form per **Annexure C** will be filled in for all asset that are derecognised.

**(c) Responsibilities**

- An asset shall be written off only on the recommendation of the Director of the department controlling the asset, and with the approval of the Municipal Manager.
- Every Director shall report to the CFO on 31 October and 30 April of each financial year on any fixed assets which such Director wishes to have written off, stating in full the reason for such recommendation. The CFO shall consolidate all such reports, and shall promptly make a submission to the Asset Management Committee with a copy to the Municipal Manager on the fixed assets to be written off. The Asset Management Committee shall consider the submission and make recommendations to the Council for adoption.
- Assets that are replaced should be written off and removed from the asset register.
- The Municipal Manager, in consultation with the CFO and other Directors shall formulate norms and standards from the replacement of all normal operational fixed assets.

**10.10 Insurance of Fixed Assets**

**(a) Definition and rules**

Insurance provides selected coverage for the accidental loss of asset value.

Generally, government infrastructure is not insured against disasters because relief is provided from the Disaster Fund through National Treasury. The municipality can however elect to insure certain infrastructure risks, though approval must be obtained from the Council.

The municipality may elect to operate a self-insurance reserve, in which case the CFO shall annually determine the premiums payable by the departments or votes after having received a list of the fixed assets and insurable values of all relevant fixed assets from the Directors concerned.

**(b) Policy**

The Municipal Manager shall ensure that material movable assets in value and substance are insured at least against destruction, fire and theft, and that all municipal buildings are insured at least against fire and allied perils. The municipality must adhere to the disaster management plan for prevention and mitigation of disaster in order to be able to attract the disaster management contribution during or after disaster.

**(c) Responsibilities**

- The Municipal Manager shall recommend to the Council, after consulting with the CFO, the basis of the insurance to be applied to each type of fixed asset: either the carrying value or the replacement value of the fixed assets concerned. Such recommendation shall take due cognisance of the budgetary resources of the

municipality, and where applicable asset classes shall be prioritised in terms of their risk exposure and value.

- In the event that the CFO is directed by Council to establish a self-insurance reserve, the CFO shall annually submit a report to the Council on any reinsurance cover which it is deemed necessary to procure for the municipality's self-insurance reserve.

## **11 POLICY FOR SAFEGUARDING FIXED ASSETS**

### **(a) Definitions and rules**

The municipality applies controls and safeguards to ensure that fixed assets are protected against improper use, loss, theft, malicious damage or accidental damage.

The existence of assets is physically verified from time-to-time, and measures adopted to control their use and movement.

### **(b) Policy**

An asset safeguarding plan shall be prepared for all assets indicating measures that are considered effective to ensure that all fixed assets under control of the municipality are appropriately safeguarded from inappropriate use or loss. The impact of budgetary constraints on such measures shall be reported to Council.

The existence, condition and location of assets shall be verified for all movable assets (computer, transport, office furniture and equipment, machinery and other assets) bi-annually (in line with the assessment of impairment). Infrastructure assets will be verified once a year (in line with the assessment of impairment). No asset may be moved without the prior consent of the respective Director and notification of the CFO.

### **(c) Responsibilities**

- Each Director shall prepare and submit to the CFO, upon request, an annual asset safeguarding plan for the assets under the control of their respective departments, indicating the budget required. The CFO shall confirm the available budget, and in consultation with the respective Directors, determine the impact of any budget shortfall. The CFO shall report the impacts to the Municipal Manager for review, and advise Council. Each Director shall implement the safeguarding plan within the resources made available.
- Each Director shall report, within the time frame indicated by the CFO, the existence, condition, location and appropriate use of fixed assets under the control of their respective departments at the review date.
- The CFO shall establish procedures for the effective management of movement of assets from one location to another (both internal and external), transfers of assets from one custodian to another, and reporting damage, in consultation with the Directors.

- Directors shall enforce the application of the procedures for controlling the movement of assets as prescribed by the CFO.
- Directors shall ensure that rented assets, such as photocopy machines, shall not be moved, unless by duly authorised staff.
- Malicious damage, theft, and break-ins must be reported to the Municipal Manager or delegated person within 48 hours of its occurrence or awareness by the respective Director.
- The Municipal Manager must report criminal activities to the South African Police Service.

## **12 POLICY FOR LIFE-CYCLE MANAGEMENT OF PPE ASSETS**

### **(a) Definitions and rules**

#### Service delivery

PPE assets (such as infrastructure and community facilities) are the means by which the municipality delivers a range of essential municipal services. Consequently the management of such assets is critical to meeting the strategic objectives of the municipality and in measuring its performance.

#### Asset management

The goal of asset management of PPE is to meet a required level of service, in the most cost-effective manner, through the management of assets for present and future customers.

The core principles are:

- taking a life-cycle approach;
- developing cost-effective management strategies for the long-term;
- providing a defined level of service and monitoring performance;
- understanding and meeting the impact of growth through demand management and infrastructure investment;
- managing risks associated with asset failures;
- sustainable use of physical resources; and
- continuous improvement in asset management practices.

### **(b) Policy**

The municipality shall provide municipal services for which the municipality is responsible, at an appropriate level, and in a transparent, accountable and sustainable manner, in pursuit of legislative requirements and in support of its strategic objectives, according to the following core principles:

- **Effective governance**

The municipality shall strive to apply effective governance systems to provide for consistent asset management and maintenance planning in adherence to and compliance with all applicable legislation to ensure that asset management is conducted properly, and municipal services are provided as expected.

To this end, the municipality shall:

- continue to adhere to all constitutional, safety, health, systems, financial and asset-related legislation;
- regularly review and update amendments to the above legislation;
- review and update its current policies and by-laws to ensure compliance with the requirements of prevailing legislation; and
- Effectively apply legislation for the benefit of the community.

- **Sustainable service delivery**

The municipality shall strive to provide to its customers services that are technically, environmentally and financially sustainable.

To this end, the municipality shall:

- identify a suite of levels and standards of service that conform with statutory requirements and rules for their application based on long-term affordability to the municipality;
- identify technical and functional performance criteria and measures, and establish a commensurate monitoring and evaluation system;
- identify current and future demand for services, and demand management strategies;
- set time-based targets for service delivery that reflect the need to newly construct, upgrade, renew, and dispose infrastructure assets, where applicable in line with national targets;
- apply a risk management process to identify service delivery risks at asset level and appropriate responses;
- prepare and adopt a maintenance strategy and plan to support the achievement of the required performance;
- allocate budgets based on long-term financial forecasts that take cognisance of the full life-cycle needs of existing and future infrastructure assets and the risks to achieving the adopted performance targets;
- strive for alignment of the financial statements with the actual service delivery potential of the infrastructure assets; and
- implement its tariff and credit control and debt collection policies to sustain and protect the affordability of services by the community.

- **Social and economic development**

The municipality shall strive to promote social and economic development in its municipal area by means of delivering municipal services in a manner that meet the needs of the various customer user-groups in the community.

To this end, the municipality shall:

- regularly review its understanding of customer needs and expectations through effective consultation processes covering all service areas;
- implement changes to services in response to changing customer needs and expectations where appropriate;
- foster the appropriate use of services through the provision of clear and appropriate information;
- ensure services are managed to deliver the agreed levels and standards; and
- create job opportunities and promote skills development in support of the national EPWP.

- **Custodianship**

The municipality shall strive to be a responsible custodian and guardian of the community's assets for current and future generations.

To this end, the municipality shall:

- establish a spatial development framework that takes cognisance of the affordability to the municipality of various development scenarios;
- establish appropriate development control measures including community information;
- cultivate an attitude of responsible utilisation and maintenance of its assets, in partnership with the community;
- ensure that heritage resources are identified and protected; and
- ensure that a long-term view is taken into account in infrastructure asset management decisions.

- **Transparency**

The municipality shall strive to manage its infrastructure assets in a manner that is transparent to all its customers, both now and in the future.

To this end, the municipality shall:

- develop and maintain a culture of regular consultation with the community with regard to its management of infrastructure in support of service delivery;
- clearly communicate its service delivery plan and actual performance through its Service Delivery and Budget Implementation Plan (SDBIP);
- avail asset management information on a ward basis; and
- continuously develop the skills of councillors and officials to effectively communicate with the community with regard to service levels and standards.

- **Cost-effectiveness and efficiency**

The municipality shall strive to manage its infrastructure assets in an efficient and effective manner.

To this end, the municipality shall:

- assess life-cycle options for proposed new infrastructure in line with the Supply Chain Management Policy;
- regularly review the actual extent, nature, utilisation, criticality, performance and condition of infrastructure assets to optimise planning and implementation works;
- assess and implement the most appropriate maintenance of infrastructure assets to achieve the required network performance standards and to achieve the expected useful life of infrastructure assets;
- continue to secure and optimally utilise governmental grants in support of the provision of free basic services;
- implement new and upgrading construction projects to maximise the utilisation of budgeted funds;
- ensure the proper utilisation and maintenance of existing assets subject to availability of resources;
- establish and implement demand management plans;
- timeously renew infrastructure assets based on capacity, performance, risk exposure, and cost;
- timeously dispose of infrastructure assets that are no longer in use to provide basic municipal services;
- review management and delivery capacity, and procure external support as necessary;
- establish documented processes, systems and data to support effective life-cycle infrastructure asset management;
- strive to establish a staff contingent with the required skills and capacity, and procure external support as necessary; and
- conduct regular and independent assessments to support continuous improvement of infrastructure asset management practice.

**(c) Responsibilities**

- Asset Management Committee should convene regularly and take measures to effectively implement this policy, and report to Council on progress made at a frequency indicated by Council.
- Within 2 years of adoption of this policy, Directors shall develop, and update at least every 3 years thereafter, an Asset Management Plan (AMP) for each service involving fixed assets that shall assess levels and standards of service, future demand, risk, determine a lifecycle plan for a minimum 10 year planning horizon, and identify management practice improvement needs (3 year horizon). The AMPs will be submitted through the Municipal Manager to Council for adoption. AMPs shall be used to inform the preparation of a Comprehensive Municipal Infrastructure Plan and budgets through the IDP process.
- The CFO shall, in consultation with Directors, determine grading scales for the measurement of asset condition, performance, cost-of-operation, and common utilisation and which is applicable to all services. Where necessary, the Directors shall interpret the grading scales for the PPE assets under their control. Directors shall



determine the grading of all PPE assets under their control at a level of accuracy considered appropriate to the municipality's resources, at least every 5 years.

- Within 2 years of the adoption of this policy, Directors shall prepare, and review at least every 3 years thereafter, an Operations and Maintenance Strategy and Plan, and submit such, through the Municipal Manager, to Council for adoption.
- Within 2 years of the adoption of this policy, Directors shall determine detailed service performance measures (differentiated, where applicable for identified customer groups), and submit such, through the Municipal Manager, to Council for adoption. Directors shall establish a monitoring regime, and report actual performance each financial year.
- The Municipal Manager shall establish procedures to ensure that legislative requirements regarding the management of capital assets, including but not limited to health and safety, and environmental protection, are documented and advised to Directors. Directors shall address legislative needs in their strategies and plans, and shall enforce implementation.

### **13 COMMUNICATION OF CHANGES**

All changes must be reported to the Budget and Treasury Department within 10 working days to maintain accuracy of the fixed asset register. Accurate information in the system is dependent upon the completion by Departments of appropriate Asset Movement Capture forms for additions and transfers to other departments.

**(a) Data updates are required for the following changes:**

- change in Department ownership
- change from location on record
- change in usage of equipment
- change in operating conditions (impairment)
- change in property title
- change in estimated useful life
- disposal or retirement
- replacement of damaged / lost barcodes

Relevant Operation documents per **Annexure C** will be filled in and handed in to the asset management team.

- (b) Departments must reconcile and motivate discrepancies between the fixed asset register and the physical inventory count results.**

## **14 PROCEDURE WITH REGARD TO DONATED ASSETS**

### **(a) Governance**

- The authority to endorse and approve acceptance of assets donated to the Municipality vests with Council or a person prescribed by the National Treasury framework as such assets have an impact on future capital and operational costs.
- A report including the fair value/cost price of the donated asset as well as the financial implications of acceptance of the donated asset must be submitted to Council, so that acceptance of the asset can be confirmed.

### **(b) Procedures**

**Once Council has approved the donation, the departments must:**

- Notify the Budget and Treasury Department of any assets donated, by submitting the Council approved report including the cost/fair value of the donated asset so that the asset can be recorded and capitalized in terms of the appropriate GRAP and relevant legislation.

## **15 ANNUAL ASSET VERIFICATION PROCESS**

The annual asset verification process will be co-ordinated / determined by Budget and Treasury Department:

Corporate Services Department must inform Management of the process and timelines for the completion or the annual asset verification process two weeks prior to its commencement.

Assets will be captured by the verification team and signed for by custodians. Assets Inventory form **Annexure C** will be filled in and signed.

## **16. PROCEDURE AND APPROACH TO USEFUL LIFE REVIEW FOR VERY POOR CONDITION**

- Any assets considered "very Poor" but still in use attributed to the following management judgement.
- The physical structure of the asset had deteriorated in stature and is subject for disposal and fully depreciated asset that have gone beyond the reviewed EUL will be adjusted to RUL of 1 year going forward pending subsequent reviews, replacement and decision of the disposal committee to dispose the assets

**ANNEXURE A:  
SUB COMPONENTS, EXPECTED USEFUL LIVES AND RESIDUAL VALUES OF  
ASSETS**

**PROPERTY PLANT AND EQUIPMENT**

**a) Roads and storm-water**

<b>ASSET TYPE</b>	<b>COMPONENT TYPE</b>	<b>EUL</b>	<b>Residual Value %</b>
<b>Name</b>	<b>Name</b>		
Pavements	Bituminous surface - thick	10-30	0
	Bituminous surface - medium	10-30	0
	Bituminous surface - thin	10-30	0
	Gravel surface	10-30	0
	Concrete/block surface	10-30	0
	Structural layers – paved arterial/distributors	10-30	0
	Structural layers - paved collectors	10-50	0
	Structural layers – paved access roads	15-80	0
Earthworks	Cut and fill earthworks	10-100	0
Road drainage	Kerbs- Arterial/Distributor	10-50	0
	Kerbs - Collector/Access	10-50	0
	Kerb inlets	10-50	0
	Lined open drain	10-50	0
Road Furniture	Guard Rail	10-30	0
	Commuter shelter	10-30	0
	Road marking	10-30	0
	Mini roundabout	10-30	0
	Speed hump	10-30	0
	Traffic island	10-30	0
	Footpaths	10-30	0
	Street Signs	10-30	0
	Traffic Signs	10-30	0
	Traffic signal	10-30	0
Bridges	Super-structure	10-100	0
	Sub-structure	10-100	0
	Side barrier	10-100	0
	Abutment	10-100	0
Retaining walls	Anchored wall	10 -70	0
	Retaining wall	10-60	0
Storm-water Conveyance	Canal lining	10-50	0
	Gabions	10-50	0
	Rip rap	10-45	0
	Culvert	10-60	0

**b) Mechanical and electrical plant**

ASSET TYPE	COMPONENT TYPE		EUL	Residual Value %
Name	Name			
Mechanical plant	Pump		10-20	0
	Engine		15-20	0
	Doser		15-20	0
	Generator		10-30	0
	Waste compactor		15-20	0
	Weighbridge		15-20	0
	Gas monitoring equipment		15-20	0
	Baler		15-20	0
Electrical plant	Motor		15-20	0
	Telemetry		15-20	0
	Control panel		20-40	0
	Isolator		20-40	0
	Power factor equipment		20-40	0

**c) Civil infrastructure**

ASSET TYPE	COMPONENT TYPE		EUL	Residual Value %
Name	Name			
Civil Structure	Mild Steel structure		20-40	0
	Timber structure		15-20	0
	Masonry structure		20-40	0
	Concrete structure		10-30	0
	Tank – plastic		5-30	0
	Tank – steel		5-30	0
	Tank – concrete		10-50	0
	Landfill lining		15-60	0
	Mild steel fittings		10-20	0
	Stainless steel fittings		15-40	0
Pipe-work	PVC pipe		20-60	0
	Steel pipe		15-80	0
	HDPE pipe		15-80	0
	Hydrant		5-20	0
	Meter		5-19	0
	Erf connection - water		10-50	0
	Erf connection - sewer		10-50	0
	Communal Pedestal		5-15	0

**d) Electrical Infrastructure**

ASSET TYPE	COMPONENT TYPE	EUL	Residual Value %
Name	Name		
HV Conductors	Cable	10-70	0
	Pilot Cables	10-70	0
	HV Overhead Line	10-70	0
HV Substation	Transformer	10-60	0
	VTs (voltage transformer)	10-60	0
	CTs (current transformer)	10-60	0
	AUX Transformer	10-60	0
	Transformers NEC	10-60	0
	Panel	45-60	0
	HV Switchgear - Breakers	45-60	0
	HV Switchgear - Isolators	45-60	0
MV Conductors	Cable	10-70	0
	Pilot Cables	10-70	0
	MV Overhead Line	10-70	0
MV Substation	Transformer	45-60	0
	VTs (voltage transformer)	10-60	0
	CTs (current transformer)	10-60	0
	AUX Transformer	10-60	0
	MV Switchgear - Breakers	10-60	0
	MV Switchgear - Isolators	10-60	0
	Panel	10-60	0
	Ring Main Unit	10-60	0
MV Switchgear	Breakers	10-60	0
	Isolator	10-60	0
	Panel	10-60	0
MV Transformer	Mini-Sub	10-60	0
	Pole Transformer	10-60	0
LV Conductors	LV Cable	10-70	0
	LV Overhead Lines	10-70	0
Public Lighting	Street Light	10-60	0
	High mast	10-60	0
Mun Service Connection	LV Cable	10-70	0
	LV Overhead Line	10-70	0
	Electricity Meter	10-70	0

**e) Buildings**

ASSET TYPE	COMPONENT TYPE		EUL	Residual Value %
Name	Name			
Building Elements	Air conditioning		7-20	0
	Electrical installation		5-30	0
	Finishes		5-20	0
	Fire protection		5-20	0
	Fixtures & fittings		5-20	0
	Plumbing		5-20	0
	Security system		5-20	0
	Lifts		5-20	0
	Building structure		5-30	0
Service Connections (on site)	Sewer connection		5-50	0
	Water connection		5-50	0
	Electricity		5-50	0
	VIP Latrine		0-10	0
	Septic tank		5-40	0

**f) Open spaces**

ASSET TYPE	COMPONENT TYPE		EUL	Residual Value %
Name	Name			
External improvements	Perimeter wall		20-40	0
	Fence – wire		15-30	0
	Landscaping		20-40	0
	Lawns		20-40	0
	Irrigation		5 -10	0
	Flood lights		20-40	0
	Light bollards		20-40	0
	External furniture		15-30	0
Sports facilities	Tennis court		15-30	0
	Bowling green		15-30	0
	Sports field		15-30	0
	Swimming pool		15-30	0
	Golf course		15-30	0
	Stadium		15-30	0

**g) Movable assets**

ASSET TYPE	COMPONENT TYPE		EUL	Residual Value %	
Name	Name				
Bins and containers	Bulk refuse containers		5-15	0	
Emergency equipment	Emergency lights		5-15	0	
	Fire hoses		5-15	0	
	Fire-fighting equipment		5-15	0	
Furniture and fittings	Chairs		5-19	0	
	Cabinets and cupboards		5-19	0	
	Tables and desks		5-19	0	
Motor vehicles	Ambulances		5-15	0	
	Fire Engines		15-30	0	
	Motor cycles		7-25	0	
	Ordinary motor vehicles		7-20	10	
	Trucks and light delivery vehicles		7-25	10	
	Tippers		7-25	10	
	Skips		7-25	0	
	Honey-suckers		7-25	0	
	Rear-end loader		7-25	10	
	Truck		7-25	10	
	Mechanical horses		7-25	0	
	Tractor-trailers		7-25	10	
	Bowser		7-25	0	
	Office equipment	Air conditioners		5-19	0
		Office machines		5-19	0
Computer hardware			5-19	0	
Plant and equipment	Compressors		5-19	0	
	Filling equipment		5-19	0	
	Firearms		5-19	0	
	Caterpillars		15-30	0	
	Graders		10-30	10	
	Lawn mowers		2-18	0	
	Workshop equipment		3-17	0	
	Lathes		5-19	0	
	Radio equipment		5-19	0	
	Telecommunications equipment		5-19	0	
	Other machinery & equipment	Workshop equipment & loose tools -Fixed - moveable		5-19	0
			5-19	0	
Learning, training support and Library materials			5-19	0	
Laundry machine			5-19	0	
Solid waste Disposal	Container / Bins Steel		5-10	0	
			5-30	10	

## 16.2 INVESTMENT PROPERTY

The cost model is adopted for Investment Property

CATEGORY	SUB-CATEGORY	EUL	Residual Value%
Name	Name		
Investment property	Parking area	0-30	0
	Shopping Centres	0-30	0
	Rental Houses	0-30	0
	Office Parks	0-30	0
	Air Port	0-30	0

## 16.3 INTANGIBLE ASSETS

CATEGORY	SUB-CATEGORY	EUL	Residual Value %
Name	Name		
Intangible Assets	Servitudes	In accordance with the applicable legal provisions	0
	Statutory licences		
	Software	3 – 10 years	0

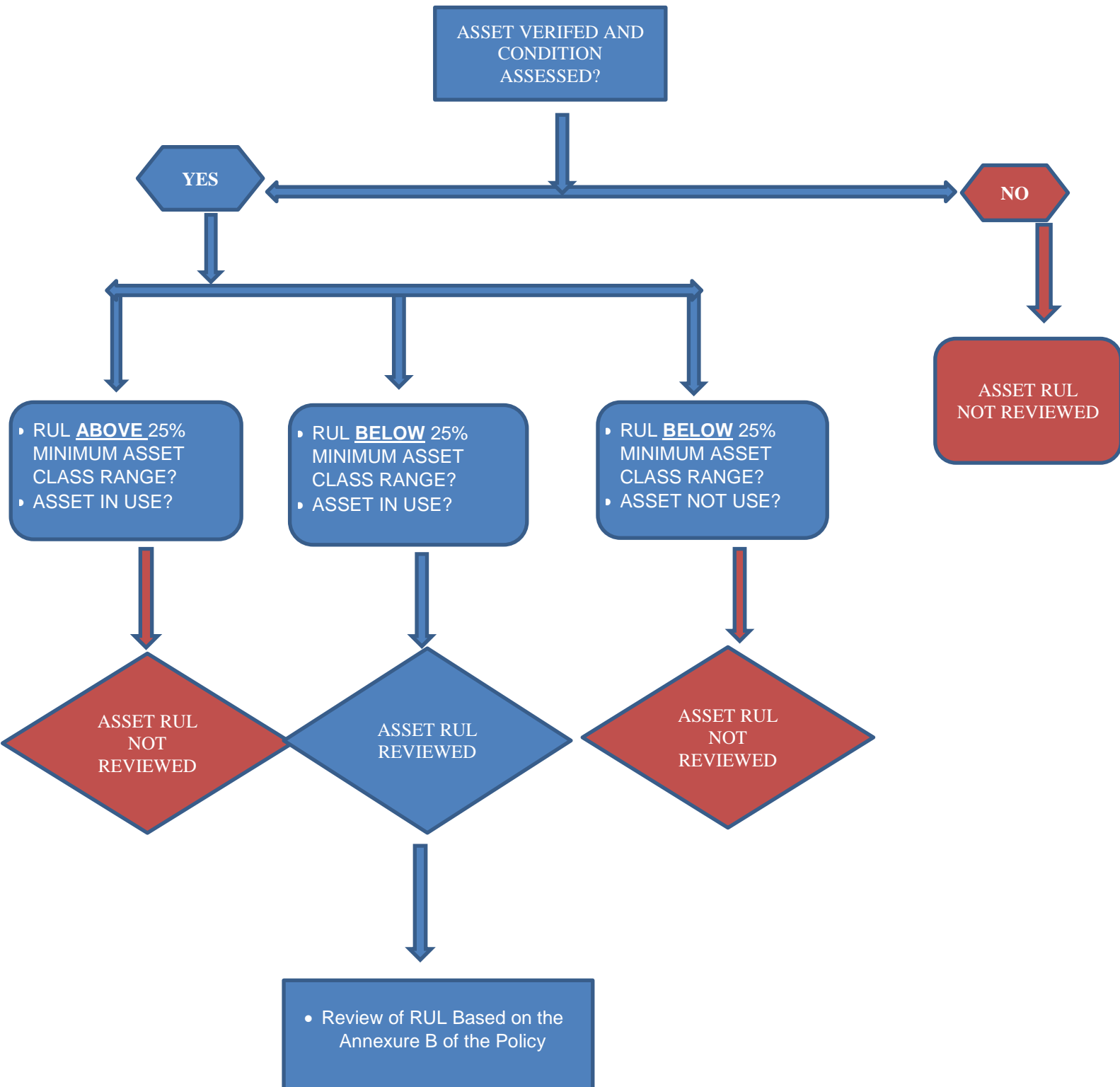
## 16.4 FINANCED LEASED ASSETS

CATEGORY	SUB-CATEGORY	EUL	Residual Value%
Name	Name		
Finance Leased Assets	Motor vehicles	5-20	0
	Furniture and office equipment	3-10	0



**ANNEXURE B:  
REMAINING USEFUL LIFE REVIEW**

**REMAINING USEFUL LIFE DECISION TREE**



The review below is for assets that meet the following 2 criteria's:

- RUL Is Below 25% Of Minimum Policy Life
- In Use By Stakeholder

Asset Category	Asset Condition	Review Treatment
Buildings	Very Good	71-100% to be added on RUL calculated on the Minimum Policy Life
	Good	46-70% to be added on RUL calculated on the Minimum Policy Life
	Fair	26-45% to be added on RUL calculated on the Minimum Policy Life
	Poor	11-25% to be added on RUL calculated on the Minimum Policy Life
	Very Poor/Bad	0-10% to be added on RUL calculated on the Minimum Policy Life
Community Assets	Very Good	71-100% to be added on RUL calculated on the Minimum Policy Life
	Good	46-70% to be added on RUL calculated on the Minimum Policy Life
	Fair	26-45% to be added on RUL calculated on the Minimum Policy Life
	Poor	11-25% to be added on RUL calculated on the Minimum Policy Life
	Very Poor/Bad	0-10% to be added on RUL calculated on the Minimum Policy Life
Road and Electricity	Very Good	71-100% to be added on RUL calculated on the Minimum Policy Life
	Good	46-70% to be added on RUL calculated on the Minimum Policy Life
	Fair	26-45% to be added on RUL calculated on the Minimum Policy Life
	Poor	11-25% to be added on RUL calculated on the Minimum Policy Life
	Very Poor/Bad	0-10% to be added on RUL calculated on the Minimum Policy Life
Computer Assets	Very Good	5 Years to be added on the Assets RUL
	Good	4 Years to be added on the Assets RUL
	Fair	3 Years to be added on the Assets RUL
	Poor	2 Years to be added on the Assets RUL
	Very Poor/Bad	1 Years to be added on the Assets RUL
Furniture and Office Equipment	Very Good	5 Years to be added on the Assets RUL
	Good	4 Years to be added on the Assets RUL
	Fair	3 Years to be added on the Assets RUL
	Poor	2 Years to be added on the Assets RUL
	Very Poor/Bad	1 Years to be added on the Assets RUL
Library Books	Very Good	5 Years to be added on the Assets RUL
	Good	4 Years to be added on the Assets RUL
	Fair	3 Years to be added on the Assets RUL
	Poor	2 Years to be added on the Assets RUL

	Very Poor/Bad	1 Written Off
Machinery and Equipment	Very Good	5 Years to be added on the Assets RUL
	Good	4 Years to be added on the Assets RUL
	Fair	3 Years to be added on the Assets RUL
	Poor	2 Years to be added on the Assets RUL
	Very Poor/Bad	1 Years to be added on the Assets RUL
Transport Assets	Very Good	5 Years to be added on the Assets RUL
	Good	4 Years to be added on the Assets RUL
	Fair	3 Years to be added on the Assets RUL
	Poor	2 Years to be added on the Assets RUL
	Very Poor/Bad	1 Years to be added on the Assets RUL
Intangible Assets	Very Good	4 Years to be added on the Assets RUL
	Good	3 Years to be added on the Assets RUL
	Fair	2 Years to be added on the Assets RUL
	Poor	1 Years to be added on the Assets RUL
	Very Poor/Bad	Written Off
Investment Property	Very Good	71-100% to be added on RUL calculated on the Minimum Policy Life
	Good	46-70% to be added on RUL calculated on the Minimum Policy Life
	Fair	26-45% to be added on RUL calculated on the Minimum Policy Life
	Poor	11-25% to be added on RUL calculated on the Minimum Policy Life
	Very Poor/Bad	0-10% to be added on RUL calculated on the Minimum Policy Life

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**AUTHORIZED BY SIGNATURE**

I, THE UNDERSIGNED, CLLR L B MOGALE, SPEAKER, HEREBY CERTIFY THAT THIS ASSET MANAGEMENT POLICY, 2019/2020 IS AN EXTRACT AS FILED IN THE OFFICIAL AGENDA OF THE 489<sup>th</sup> EXECUTIVE COMMITTEE MEETING HELD ON 23 MAY 2019 AND APPROVED BY COUNCIL AT ITS 144<sup>th</sup> SPECIAL MEETING HELD ON 30 MAY 2019  
UNDER COUNCIL RESOLUTION A.61.30.05.19.

.....  
CLLR L B MOGALE

.....  
DATE